



**Director of
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SITUATION REPORT

EL SALVADOR

The lull in sustained guerrilla military operations continues, but the insurgents are inflicting heavy damage to the economy and they remain capable of launching an offensive in the coming months.

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[redacted] guerrilla hit-and-run attacks on the electrical power system in recent weeks have caused a virtual total blackout of the eastern half of the country. Some 65 electrical towers have been destroyed or damaged since the first of the year. [redacted]

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The guerrillas remain strong in Chalatenango department, where they hold several small villages as well as some larger, abandoned towns. The Salvadoran military has only 250 permanently garrisoned, combat-ready troops to counter heavily fortified insurgent strongholds in the area. Low troop morale worsened by almost constant contact with the guerrillas is affecting the military's ability to conduct offensive actions. [redacted]

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[redacted] 25X1
the guerrillas have enough weapons to sustain a higher level of activity. Guerrilla casualties during the January offensive--perhaps 400 to 500 full-time cadre killed--have not crippled the estimated 4,000-man insurgent force. [redacted] 25X1

Military's Views on Negotiations

[redacted] 25X1
most officers oppose negotiations between the junta and leftist opposition leaders. Junior officers are particularly strident about what they perceive as ill-conceived efforts by Christian Democrats to seek political accommodation with spokesmen of the Revolutionary Democratic Front. [redacted] 25X1

Hardline rightists in the military are attempting to turn the recent arrest of former junta member Colonel Majano into a test of the military's willingness to deal harshly with those few officers still disposed to compromise with the opposition. In addition, [redacted]

[redacted] that they are opposed to General Torrijos' efforts to foster negotiations. The officers said the Salvadoran military generally views Torrijos as an ally of Cuba and the insurgents. [redacted] 25X1
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SPAIN: Basque Terrorists Call Truce

The attempted military coup has reminded regionalists how much they have to lose if democracy founders.

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On Saturday the political-military wing of the Basque Fatherland and Liberty terrorist organization--ETA-pm--freed three honorary consuls kidnaped last month and declared its willingness to let political forces deal with Basque problems. No conditions were attached to the truce, but the terrorists warned they would reconsider in the event of a military coup or backsliding on devolution of power to the region.

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Clearly implicit in ETA-pm's statements was the fear that further terrorism at this stage could provoke another military intervention. Rightist military officers are preoccupied by threats to the unity of Spain, and there is little doubt that a military takeover would spell the end of regional autonomy.

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ETA-pm called on ETA-m, the more radical military wing which claims responsibility for more than 90 killings last year, to join in laying down arms. The two terrorist groups quarreled openly last month when ETA-m murdered a young engineer, and ETA-pm's cease-fire is likely to widen that rift.

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It is highly unlikely that ETA-m will go along with the truce, and the radicals may be joined by the diehards from ETA-pm. For some time now, ETA-pm has only used terrorism to supplement political pressures on Madrid to grant more autonomy. The radicals, however, have been uncompromising in their efforts to achieve an independent Marxist state--provoking a military takeover is part of their plan to force Basques to fight on their side.

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As if to underline their contempt for compromise, ETA-m terrorists critically wounded a policeman only hours after ETA-pm's announcement.

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Now that Basque autonomy is firmly established, as symbolized by the King's visit to the region last month, popular sympathy for the terrorists is drying up. The shock of the attempted coup is likely to accelerate the process, and ETA-pm's truce is a sign that extremists recognize their growing isolation. It may, however, goad ETA-m into proving that it can still strike hard at a time when security forces are dangerously demoralized.

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POLAND: Economic Plan

The Kania regime has produced the draft of a comprehensive program intended to stabilize the economy by 1984 but has not yet released it. []

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The program will probably receive at least the cautious approval of Western bankers. Since the plan--as its drafters acknowledge--would reduce the standard of living, it is likely to be opposed by Solidarity, and thus the regime may implement it only partially. []

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Despite some internal inconsistencies, the plan offers a far-reaching program that could substantially improve both economic efficiency and the balance of payments. It recommends organizational and administrative changes--notably, decentralization. It also calls for greater use of taxes, credit policy, and price flexibility in influencing economic activity. []

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The tone of the plan, with its candid emphasis on the need for economic austerity, and some of its specific recommendations probably will generate widespread opposition. Especially controversial proposals--some already tried and rejected--include linking wages and productivity, lowering per capita meat consumption, and raising retail prices. []

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Some of the more provocative aspects of the plan are tempered by other recommendations including one that retail prices should be raised only with public approval and with provision for at least partial compensation for higher food prices. []

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Among the more striking innovations in the plan is a call for a progressive income tax. This proposal probably will encounter opposition from the better paid, more influential workers--coal miners, for example. The plan also recommends a ban on new social programs for the next three years--a suggestion likely to arouse protests from lower paid workers. []

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Some parts of the plan stand a good chance of being adopted because they are likely to raise, or at least not impinge on, living standards. These include measures to encourage private agriculture, switching productive capacity from investment goods to consumer goods, increasing output of service industries, and increasing supplies for small industries and handicrafts. []

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INTERNATIONAL: Grain Reserve Negotiations

The International Wheat Council session starting tomorrow will have difficulty agreeing on the details of an international grain reserve, even if the US backs its establishment.

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Countries that import grain, particularly in the Third World, insist on setting up the reserve to forestall high prices. They have difficulty financing foodstuff imports despite relief available from the Food Aid Convention of 1980 and various country aid programs.

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Exporting countries are under strong domestic pressure to eschew a reserve agreement because it could lower grain prices in the current tight market. Exporters, however, also would lose the floor that a reserve system would place under grain prices in times of market surplus.

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Strong US opposition to a reserve program at the council session probably would preclude reaching a new agreement and would result in extension of the current International Wheat Agreement, which contains no restrictions on market forces.

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US acceptance of a modified reserve program could form a basis for negotiation but other countries still disagree about details. Importers argue for a reserve of 30 million tons while exporters favor 15 million.

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Wide disagreement also remains over the prices at which grain would be added to or removed from the reserve. Moreover, assistance over and above the \$2 billion allocated by the World Bank last year is needed to provide grain storage facilities in developing countries.

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USSR: Rail Line to Gasfields

The rapid progress on a key rail link in northern West Siberia will help relieve transportation bottlenecks affecting development of major gas and oil fields in the area. The rail line, reported in the Soviet press to be in service from Surgut in the heart of the oil-field area to Urengoy near the Arctic Circle, is being extended west to the developing gasfields at Novyy Urengoy. When completed, probably by midyear, the main gas- and oil-producing areas of West Siberia will be linked by rail to the European USSR. Improved transportation is essential in West Siberia if the Soviets are to meet the targets in natural gas and crude oil production set for the next five years.

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SPECIAL ANALYSIS

NICARAGUA: Sandinistas Under Pressure

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The Sandinistas--believing their rule threatened by international pressures, counterrevolutionary activities, and deteriorating economic conditions--are taking a belligerent tone toward foreign critics and bearing down on domestic opponents. They may make some concessions, but they are unlikely to loosen their control or to cease permanently their assistance to Salvadoran leftists.

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Managua sees US assistance to the Salvadoran junta, along with a possible suspension of US aid to Nicaragua, as the first stage of a campaign to check leftist forces in Central America. The Sandinistas are convinced that former Nicaraguan National Guardsmen staging hit-and-run raids out of Honduras have the support of the Honduran Government, and they fear that they eventually will face an invasion by Honduran, Guatemalan, and Salvadoran forces backed by Washington.

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The Sandinistas believe the challenge they face from democratic groups at home also is promoted by the US. Independent political parties, the newspaper *La Prensa*, and the business community have called the government to task for its restrictions on personal freedoms and for the country's growing economic woes.

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Nicaragua's balance-of-payments deficit amounted to \$65 million last year, leaving insufficient reserves to pay for a month's imports. Private investment is virtually nil, and foreign banks are awaiting rescheduling of the foreign debt before extending new loans. Increasing agricultural production will be difficult because of a shortage of harvest labor, low investment levels, and government mismanagement.

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Managua has responded to these pressures with a mixture of conciliation, bravado, and repression. To maintain access to foreign financial assistance, the

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Sandinistas recently have tried to reassure Western governments and investors. For example, they moved quickly last month to persuade a US-owned banana company not to cease operations in Nicaragua, and promised rapid settlement of compensation claims by US companies. [REDACTED]

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On the other hand, the regime's response to internal threats and perceived dangers from abroad has included strong doses of belligerence and militarization. Government officials have intimated that any further US pressure will lead to greater Sandinista radicalization and a crackdown on the domestic opposition. Last month, the Sandinistas announced the creation of militia training centers with the goal of a 200,000-member force--a four-fold increase over previous projections. [REDACTED]

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The regime also has struck back at Washington for criticizing Sandinista aid to Salvadoran revolutionaries and has labeled Washington's suspension of concessionary wheat sales as "blackmail." Sandinista spokesmen have indicated that a cutoff in US aid would be viewed as economic aggression, noting that Nicaragua would be unable to repay its foreign debt if Western financial assistance were terminated. [REDACTED]

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Relations With the Opposition

The Sandinistas continue to pursue a dual strategy in dealings with their opponents. By appealing to the patriotism and self-interest of business and democratic groups, they try to promote economic recovery. [REDACTED]

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The other prong of the Sandinista strategy is manipulative and coercive. Last month, for example, security forces temporarily seized the offices of the independent human rights commission, and the government is now prosecuting its leader--a strong critic of the Sandinistas' human rights record--for violating a vague national security law. The Sandinistas also arrested

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three leaders of an Indian organization--which recently staged strikes and demonstrations--and charged them with counterrevolutionary activities. [redacted]

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In continuing their effort to weaken the major private-sector organization, the Sandinistas recently usurped control of one of their constituent groups. Independent groups that boycotted the Sandinista-dominated Council of State last year were told they will lose their seats if they do not return when the Council reconvenes. In any case, the opponents' influence in the Council probably will be diluted further by the inclusion of additional pro-Sandinista organizations. [redacted]

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Outlook

To ease international pressures, the Sandinistas may be willing to cease temporarily their support for Salvadoran revolutionaries, particularly if the guerrillas can win participation in the government through negotiations. The Sandinistas, however, remain committed to the insurgency--not only out of ideological affinity but also out of a belief that their survival depends on a leftist victory in El Salvador. Managua probably will thus try to redirect its support activities--such as shifting them to Costa Rica--or resume them once international interest has subsided. [redacted]

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At home, the Sandinistas would prefer to keep their mix of concessions and crackdowns, which has served them well over the past 19 months. They slowly have consolidated their power without galvanizing the opposition into a united front, driving out the professional classes, or jeopardizing foreign aid. [redacted]

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Independent groups and *La Prensa* probably will be tolerated--within limits--over the near term. Nevertheless, the Sandinistas will continue to move toward the establishment of an authoritarian, one-party state by chipping away at the influence of independent groups. If the combination of external and internal pressures becomes too great, they may turn to outright suppression to protect their grip on Nicaragua. [redacted]

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